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Toronto Office

The Province of Alberta

IN THE MATTER OF "THE NATURAL GAS UTILITIES ACT"

—and—

IN THE MATTER OF an Enquiry into Scheme to be adopted for Gathering, Processing and Transmission of Natural Gas in Turner Valley

G. M. BLACKSTOCK, Esq., K.C., *Chairman*

Dr. E. H. BOOMER, F.C.I.C., *Commissioner*

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W I T N E S S E S

E X H I B I T S

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THE CHAIRMAN: You have a motion Mr. McDonald?

MR. McDONALD: Yes, Mr. Chairman. During the course of last week I served on the parties interested a Notice of Motion that I would apply this morning for an Order that there be added to the Agenda of the matters to be considered and determined by the Natural Gas Utilities Board at the present hearings of the said Board, the following:

1. The price to be paid for gas at the point such gas enters the distributing system of any municipality.

2. The price to be paid for gas at the point such gas enters the Plant of the Alberta Nitrogen Products Limited.

or alternatively to the fixing of the price

The rate to be paid to or charged in its internal accounts by The Canadian Western Natural Gas Light Heat and Power Company Limited in respect to the services rendered by it in transmitting gas from the Madison Scrubbing Plant to:

The Plant of the Alberta Nitrogen Products Limited;

The point of delivery of gas to the distributing system in the City of Calgary;

The points at which gas is delivered to the distributing system of other municipalities served by the transmitting lines;

and

The point at which gas is delivered to the

compressor station at Bow Island, and including cost of compressor services.

Now the purpose of the motion is to have added to the Agenda these items, either 1 and 2 or the alternative. Under the recent amendment to the Act, the 1945 amendment, I think the rates can be fixed for the service rather than dealt with in the matter of price.

MR. STEER: Would you give me a reference to the amendment that you spoke of?

MR. McDONALD: Yes, it is Section 4 of the 1945 Act, Chapter 31, subsection (c), that there be added to the Section 72 of the Act, "A just and reasonable price to be paid for all services over which the Board has jurisdiction." Now in attempting to analyze all of the factors that enter into the matter of well head price, it appears to me that it will be necessary to establish the rate for transporting the gas to the point at which the gas then meets the jurisdiction of this Board. That is particularly applicable to the gas that goes to the Alberta Nitrogen Products Limited. There is a rate presently in force by an agreement between the Companies involved which I understand also involves the matter of a payment to the Gas Company for the transmitting of the gas. The question of that rate is apparent because the load which would be carried to the Alberta Nitrogen Products Limited is going to be a major item in the final calculation of gas that is available for sale and the fixing of the well head price. It may be that in the report which will be made by Mr. Hamilton under the Order of the Board issued last week, that a great deal of this information will be available in that way. In view of the fact that the Gas Company is

operated as a public utility and has done so for many many years, their accounts should be in a position where they can with very little difficulty make their submissions in regard to this. I do not think I can add anything to the statements made by the Board as set out in the Reasons of Judgment issued last week, particularly on page 4 where the matter of the relevancy of these items are dealt with.

THE CHAIRMAN: That, of course, Mr. McDonald, would involve a pipe line from Turner Valley to Lethbridge.

MR. McDONALD: Well it would involve a transmitting line.

THE CHAIRMAN: How could that affect the well head price? I suppose it depends on which end we start at?

MR. McDONALD: To some extent, yes. I take it that a just and reasonable price will be that which is reasonable at both ends from both the consumers' and the producers' view.

THE CHAIRMAN: It all depends at which end we start at. If we started at the Calgary end then your application might be quite relevant. If we start in Turner Valley it might be a different matter.

MR. McDONALD: I still say to be just and reasonable it must take into account both sides.

THE CHAIRMAN: I am afraid I put bad ideas into your head from the things I wrote.

MR. McDONALD: I do not think there is doubt at all, as I mentioned before, that a just and reasonable price must be at both ends, particularly following the law as it is in effect now.

THE CHAIRMAN: Then from what you are suggesting, it might mean that there would be a price for gas in Calgary,

you have a different price in Lethbridge, and still a different price in Taber, depending on the distance over which the gas was carried. And with the public utility operating as one unit, as the Gas Company does, various prices I think would be wrong.

MR. McDONALD: I think that part is covered in the various judgments from time time with regard to Public Utility Commissions, and I think that enters into the question of the just and reasonable price to the consumer and the producer. I think the information of and a definite statement from the Gas Company as to its relevancy with regard to the items mentioned in the Notice of Motion should be before this Board, so that we can make a recommendation to the Board.

THE CHAIRMAN: Mr. Steer?

MR. STEER: When I approached this motion, Sir, I tried to make up my mind what the object of it was, and I am bound to say that I am as much in the dark now as I was when I started. I am submitting to the Board, and I say this subject to not having made a check which I wanted to make, I am submitting to the Board that so far as any common carrier activity of pipe lines are concerned, the fixing of prices for carrying of gas and all other matters with respect to the operation of gas pipe lines as common carriers, is within the jurisdiction of the Public Utilities Board and that Board only. I say that unless this Chapter 316 has been amended, and I have not had an opportunity of checking to see whether it is amended or not. Subject to that I say in the first place that it is the Public Utilities Board and the Public Utilities Board only that has jurisdiction over pipe lines as common carriers, under The Pipe Line Regulation Act,

Chapter 316. So far as the Natural Gas Utilities Board is concerned, my submission is that this subsection (f) upon which my learned friend relies, does not give this Board any power to fix prices for carrying charges on gas. That subsection must be read in my submission along with the Pipe Line Regulation Act, and if you read the two together, then you must, in my submission, come to the conclusion that subsection (f) was not intended to enable the Board, even if it wanted to do it, to fix prices as suggested by my learned friend's motion.

The two sections that we have got to look at are 72 and 74 of this Act, and, of course, the only subsection that could possibly be said to give any countenance to my friend's motion is that subsection (f). As I see that subsection (f), it cannot have that meaning because of the terms of The Pipe Line Regulation Act which gives to the Utilities Board full jurisdiction.

Now, Sir, I have in the course of preparation, and I have no doubt that the Board will allow me to file them, subject to any right of cross-examination which any party may wish to exercise, a couple of affidavits, one by Mr. Brownie, describing the Canadian Western system, and the other by Mr. Smith, the controller and chief accountant, describing the way in which the books of this company are kept. Now, the nature of the system itself is well known. We have got a main transmission line from Brooks to Calgary.

MR. HARVIE: Where?

MR. STEER: From Bow Island to Calgary. In 1922 to '23 or thereabouts, to augment the Bow Island supply there was constructed the line from Turner Valley to Okotoks

and also a line from Foremost to meet the main transmission line at Bow Island. And then in 1925 another line from Turner Valley to Calgary was constructed. And in 1928 another line from Turner Valley to De Winton, where it met the main transmission line, was constructed.

It is quite clear from Section 74 of the Act, which is the section which deals with the common carrier aspect of this business, that this Board has no jurisdiction over any line within the bounds of a municipality. And if I understand my learned friend's motion, he wants this Board to fix a price which is going to be paid for carrying gas, we will say, from the scrubbing plant 30 miles to the Calgary limits. Then he wants the Board to fix a price for gas, we will say, that is led off from that main transmission line, into the Ammonia Plant. And then he wants the Board to fix a price for gas which goes, as this gas does go, from Turner Valley to Granum and to all those points on that line including Lethbridge.

Now, the jurisdiction of the Board, so far as its jurisdiction over common carriers is concerned, is confined to those portions of the line which run from the field to the main transmission line and which run between the municipalities which are served. And if my learned friend's motion were to succeed, the Board would be obliged to take every one of those little divisions of that line and say that the price for carrying from, we will say, Claresholm to High River, is to be so much per m.c.f. I say that that was never contemplated. I say that this Board has no jurisdiction to do it and it is the Public Utilities Board that has to control common carrier rates, and that the purpose of going

into Section 74 of this Act at all, is simply to see that, first, it is to provide that there is no discrimination and, secondly, it is to give into this Board's hands the power to say what area is adjacent to a municipality that is supplied, you have that power, and then to consider any scheme that is put forward for the carrying of gas to that municipality or to the adjacent area to consider whether the public interest will be served by permitting that to be done.

(Go to page 3298)

That is the function of this Board in my respectful submission with respect to this common carrier section. I am reading subsection 3 of section 74:

"No proprietor of a pipeline who is a common carrier shall be compelled to accept natural gas for delivery within any municipality already served by a public utility or within the area adjacent to such municipality."

The latter part of the section gives this Board the right to determine what is adjacent.

"unless and until the person, firm or corporation seeking to use the pipe line as a common carrier has satisfied the Board that his or its scheme for the supply of natural gas is reasonable and sufficient, having regard to the general circumstances and the Board is satisfied that, having regard to the availability of any other or existing source of supply in the area or to any other circumstances, the use of the pipe line as a common carrier is to the general benefit of the area directly or indirectly affected thereby."

Broadly speaking in my submission the jurisdiction of this Board ends where the jurisdiction of the Public Utilities Board begins and after reading this Act and the Public Utilities Act and the Pipe Lines Regulation Act altogether in my submission this Board has jurisdiction over common carrier pipe lines to the extent that is outlined in section 74. It is the Public Utilities Board that has jurisdiction over the prices that are to be charged by common carriers. It is the Public Utilities Board that has jurisdiction to determine the prices that are to be paid by the municipalities along this system and in determining those

prices the Public Utilities Board has the power, and in my submission must consider the very things that my learned friend is talking about. The cost of the transmission of this gas from the scrubbing plant to the city boundary is a matter that is perfectly proper for consideration of the Public Utiltiies Board in determining the prices to be paid. My learned friend mentions the Alberta Nitrogen contract. Now that contract in my submission is no different from the contract that exists between the Canadian Western company and any other industrial user of gas. That contract is under the control of the Public Utilities Board in exactly the same way as any other contract for the supply of gas. It is under the control of that Board and that appears to be quite clear from the definition of a public utility under the Public Utilities Act. Section 66 of that Act gives the power to fix prices and then I would like to refer the Board to Section 50 of the Natural Gas Utilities Act. This is the section which saves all the powers of the Public Utilities Board. Section 50 gives the Board the power to fix just and reasonable rates or charges to be made by the Public Utilities and then subsection 2 says:

> "Nothing in this or the preceding section contained shall limit or restrict the jurisdiction of the Board of Public Utility Commissioners constituted pursuant to the provisions of the Public Utilities Act, chapter 28 of the Revised Statutes of Alberta, 1942, to fix the rates to be charged by public utilities for the supply of natural gas to the ultimate consumer."

So what I say to you, Mr. Chairman, is that the Board of Public Utility Commissioners has the same jurisdiction over that ammonia plant contractas any other

supply of gas by this company and there is no reason why The Utilities Board has the right under any supposed jurisdiction with respect to common carriers or otherwise to treat that contract in any way different from any other.

THE CHAIRMAN: Supposing we agree with you, Mr. Steer, in those submissions you have made, might it not be unwise for this Board to refuse to hear or to refuse to direct an Inquiry into these matters and determine the relevancy of them and the application of them after we have heard the evidence?

MR. STEER: Now I would like to be clear in my own mind what the object is. If the object is to have a rate fixed which a common carrier - which we are under that section - is going to charge for the service of carrying gas, well and good. I say with respect to that you have no jurisdiction to do it. I say the Public Utilities Board has to fix that rate unless there is some amendment to that Statute of which I am not aware. I have not searched for the last couple of years.

THE CHAIRMAN: There is none, Mr. Steer.

MR. STEER: Then I say the Public Utilities Board has the power to fix that rate and that that being so, what can be the object of an application of this sort? The only possible object, it seems to me, can be to anticipate that somebody is going to want gas carried from some point to some other point in that system which does not involve the use of the distribution facilities within the boundaries of a municipality because you cannot make them a common carrier and they are not made a common carrier. We might suggest for a moment that someone wants to build a plant 20 miles along that transmission line. The Board says that is not adjacent to the City of Calgary. That is the first point. Then that

person contracts for a supply of gas at the Turner Valley field and that has to be transported through the Canadian Western pipe line to a point which we will assume that the Board has said is not adjacent to Calgary. Then there is some basis on which a rate can be fixed by this Board or by The Public Utilities Board. But apart from something of that sort, what object can be served by making such Inquiry and fixing such a rate which I submit this Board would have no jurisdiction to do. I submit, Sir, that there is not any point in adding any of these questions to this Agenda because they are not at all relevant to the Inquiry which this Board is undertaking. I repeat in my submission the jurisdiction of this Board ends at the outlet of the scrubbing plant and there the jurisdiction of The Board of Public Utilities Commissioners begins.

MR. CHAMBERS: If the Board pleases, I have not given specific consideration to this question and I am not in a position to say at the moment whether I am opposing or supporting this specific motion, but it does raise matters that are the concern not only of the Madison company but the Royalite Company as a producer. Anything I may say, I am saying it more for the consideration of the Board and of the problem as I see it. In the first place I take issue with Mr. Steer in his statement that the jurisdiction of this Board begins where the Utilities Board leaves off. Now I would like to put that the other way. I think there is justification for the idea that the jurisdiction of the Public Utilities Board begins where this Board's jurisdiction stops under this Act.

MR. STEER: I think that is exactly the way I said it.

MR. CHAMBERS: In other words, I think you take the four corners of this Act to find what the powers of this Board are and when it is through exercising its functions, the Utilities Board carries on from there. My appreciation of the object of this Act is that it was to regulate the production and generally speaking the handling and wholesaling of gas. As I understand it, The Public Utilities Board itself is primarily concerned with the retail price of that gas from the wholesaler and it occurs to me that the Gas Company is in a dual position. It purchases gas wholesale from the producer or from the company that is handling it for the producer and it then transfers it to the municipalities, cities and towns in its distribution system. Now it occurs to me that the distribution system and the retailing under franchise or similar arrangements is a function of The Public Utilities Board and I do not think that the reference in the Act, in The Natural Gas Utilities Act to a common carrier exhausts the Board's functions with regard to those pipe lines under this Act. The reason I say that is this, in the definition of a pipeline it says this: "Pipe line means any pipe or any system or arrangement of pipes whereby natural gas is conveyed from any well-head or other place at which it is produced to any other place and/or from any place where it is processed or treated to any other place and includes any pipe line used for the transporting of gas from any field or area where such gas is produced to or through any municipality but excluding any distribution system used for the distribution of any such gas to the consumer in any such municipality." Then it includes a lot of other things. Then we have a definition of a public utility, as amended this year. Public utility means, among other things,

any pipe line as defined in paragraph (h) of this Act. That is the one I have just read. Then we turn over to section 18 and it says: "The Board" - that is The Natural Gas Utilities Board - "shall have exclusive power and jurisdiction to deal with all public utilities as defined by this Act and the proprietors thereof and subject to the provisions hereof." Then we come to section 50, to which my learned friend, Mr. Steer, has referred and I submit that that section 50, subsection 2, does nothing more or less than to make it clear that the Legislature intended that The Public Utilities Board would still deal with the distribution system and the retail price. I submit that there is a reason behind that. This very issue that the Chairman mentioned this morning, at what end are you going to start to fix this field price? Now that very question itself, to my mind, is a most relevant and important matter for the consideration of this Board at this Hearing. The Board must consider the pros and cons, whether it is going to start from the Calgary end or whether it is going to start at the field end. I submit, aside altogether from fixing a specific amount of the field price, the utility charges in between are important because, as I understand P blic Utilities law it is this, assuming the Board starts at the field, at the well-head and says that is the price, no matter what consideration it is based on then you have the Madison and the B.A.Utilities adding operating charges on top of that. Then my thought is how much does it cost to get that gas from the scrubber to the boundaries of Lethbridge, Calgary and other cities.

And then the Utility Board functions and it fixes the price for its distribution.

THE CHAIRMAN: Do you agree then that there should be a different price for each Municipality served by the Gas Company ?

MR. CHAMBERS: Not necessarily so.

THE CHAIRMAN: How could you fix it otherwise ?

MR. CHAMBERS: Just the same way as the Utility Board is operating. As I understand it they have taken all the Gas Company's assets and they pooled them so far as the rate base is concerned and then they have, - in order to raise the revenue they have fixed uniform rates to consumers but that the Gas Company rate base or charges are put into one pool and then how much revenue they require is ascertained and that is equally divided among all the consumers.

THE CHAIRMAN: Mr. Chambers, are not the main transmission lines a part of the Calgary Gas Company's rate base ?

MR. CHAMBERS: Not necessarily so. I say that is part of the Calgary rate base so far as this Board is concerned probably, - if that is the way you want to take it, but as I take it the Public Utility Board starts at the boundary of the City of Calgary, at the city limits, or of Lethbridge, and says "Now it costs this Gas Company so much to get the gas to that point. Now we have taken that as a starting point, and we the Public Utility Board must examine into the distribution system and find out how much they require in that respect", but I submit that the whole object of this Act was to define the net price to the Gas Company whether it is the charge that they are to pay Madison or whether it is that charge plus their cost of getting it to the Municipality, but getting back

to the other point, sir, as I understand Public Utility procedure, we will assume the well head price is fixed at so much. Then you have the intervening utilities, Madison and B. A., and that is so much.

Now "just and reasonable", as I understand it just means what is just to the Utility Company but reasonable as a ceiling beyond which the Board of Public Utility Commissioners or this Board cannot go; in other words supposing you take a well head price of five cents and you add on all the utility charges on the base of a theoretical set-up of what the Board considers fair and you end up with a price of thirty cents we will say to the Gas Company before they have been allowed anything for distribution and then when the Public Utility Board examines their distribution costs you might end up with a price of forty cents. Well now those rates all along the line have been fixed on Public Utility principles and what the Public Utility Board considers a fair return and so on but to end up with the forty cents it is unreasonable to the consumer, so the Board cannot fix the forty cent price. Now that is my understanding of the word "reasonable". It is a ceiling and that is one of the hazards which I submit is in the utility business, in the Gas Utility business, in other words the Utility Board can go a long way to even those things out but there is still that hazard remaining. It is a matter I have given considerable thought to. After all where is it leading to and my impression of the Act and that Amendment which was put through last year was in effect that this Board, because it is dealing with the production or the well head price, that this Board has to decide in effect what is the laid down price at the boundary of the

Municipality.

THE CHAIRMAN: One price to each Municipality or a different price for each.

MR. CHAMBERS: That is for the Board to say. It might be done either way.

THE CHAIRMAN: Then actually we would require to fix a price at the outlet of the scrubber and then add the transmission lines and fix the price for the service, to be charged to the Municipality, which would mean that the Gas Company would be paying a different wholesale price for every Municipality that it enters.

MR. CHAMBERS: No, I suggest this would be one way of doing it, the Gas Company's price to the scrubber is so much, that is fixed at so much per m.c.f. The Gas Company then has a system from the scrubber to all these various Municipalities. This Board could ascertain the rate base and the rate of return on that and work out what is the average per m.c.f. cost to the Gas Company from the scrubber to the boundary of each Municipality.

THE CHAIRMAN: So that means the Gas Company then would have two rate bases ?

MR. CHAMBERS: Yes, if my argument is right, if this Board has jurisdiction over this part of the plant it has to deal with the rate base, and then the other rate base is dealt with by the Utilities Board but I submit, sir, if that is not the way it is done, then a lot of this Hearing may come to naught for this reason, this Board may fix a price to the Gas Company's scrubber and the Utilities Board may then have a Hearing later on and say "Now the ceiling price, the maximum price, this Company, this Gas Company, can charge the

consumers is so much", and that is going to end up with a total revenue to the Gas Company and there is not enough to go around and then this Gas Company says "We cannot pay what the Natural Gas Utilities Board has fixed." This is a matter which has caused all the Companies concern, I know it has caused me some concern but I do submit in view of the definition of "pipe lines" and of "Public Utility" which I have just read and Section 18 which says this Board has exclusive jurisdiction and the cases which I referred to on the other motion, the Act which was passed last is the one which prevails.

THE CHAIRMAN: On that, Mr. Chambers, I am very much inclined to echo the words of the famous Mr. Bubble and you all know what that is.

Anything, Mr. Harvie ?

MR. HARVIE: I think Mr. Chambers has covered the interpretation of the Act as much, and in the same way, as I would interpret them. There has already been before this Board, and another Board, a joint application for settlement of certain rates, what we called "the refining rate for gas" and at that time we found great difficulty in finding where one Board's powers stopped and another one started and I think it has now come to the time where we must find that out before we can put any picture together to submit to this Board or to any other Board as to what rate and what utility should be settled by this Board.

Now as I understand this motion of Mr. McDonald it is a suggestion that these matters be put on the Agenda before this Board and dealt with at the present time. That would mean that the Gas Company would do the same as the rest of us have done, they would look over the picture and then

submit some submission of what they thought was a practical solution dealing with their own problems. Now it might be that their submission would be that they buy the gas at the scrubbing plant and leave everything else to another Board. It might be that their submission would be that the Gas Company accept the gas at the scrubber plant and a transmission charge on the Calgary's end of the trunk line only be set. It might be that they would say that the Bow Island system, south of the Calgary system, would have to be included and it is quite probable, in my opinion, that that might be so because that line is being used for the repressuring and if this Board holds that, in the market sharing position as to the distribution in Turner Valley, that cost cannot be deducted from Madison or the market sharing position then I think that that would be necessary, I think it would be necessary for us to know what those costs are. If on the other hand the repressured gas going to Bow Island is considered a deduction from the market sharing position in Turner Valley then I think possibly we would come down to what is a fair scrubbing charge and there would then be before this Board possibly another application which would be or which would have to be to set that rate, but if the gas is sold to the Gas Company for repressuring I think that is eliminated from the worries of the Turner Valley producers, but I cannot see at all how any picture can be put together under the two Acts that does not stop at the City limits. Mr. Steer suggests that the contracts, - they have might come under the jurisdiction of the Utilities Board. I cannot agree with him at all on that as I read the Act. Certainly it cannot go that far and I think it must be dealt with by this Board.

THE CHAIRMAN: Is the Nitrogen Co. an ultimate consumer ?

MR. HARVIE: Yes it is and I think it will have to be dealt with in the same way as any other. That gas is in fact coming from the producers in Turner Valley.

I was going to say that if this is added to the Agenda, the Gas Company would have a submission, that would be agreeable to all of course but at the present time we are just up in the air all along as to where we start and where we finish. For instance if they came in with a submission and it is not agreeable then that can be dealt with specifically but to say that they do not come within the jurisdiction of this Board, which I understand is Mr. Steer's submission, is not the interpretation which I put upon the Act.

THE CHAIRMAN: Mr. Fenerty ?

MR. FENERTY: I have no position to take in the matter particularly. The matter of jurisdiction I think has been fairly argued. The matter as to the facts, the cost of transmission to the city limits is going to be determined by this Board or by the Utilities Board and we will meet that in one place or the other and it is a matter of indifference to us where it comes.

THE CHAIRMAN: Anything further, Mr. McDonald ?

MR. McDONALD: I have nothing further to say.

THE CHAIRMAN: Any contribution, Mr. Blanchard ?

MR. BLANCHARD: I do not know that my contribution would be of any value Mr. Chairman, but I cannot for the life of me at the present time appreciate the purpose of the motion. If it is to assist this Board in reaching a well head price I cannot appreciate how the fixing of a price at the outskirts of each Municipality for the transmission of gas from the

scrubber to that point is going to bring us any closer to knowing what the well head price should be because we still are in the dark as to what the ultimate consumer will pay as a result of the rates fixed by the Public Utilities Board taking into consideration the whole distribution so how much closer are we to that point. Now if that is not the point and if the point is that this Board and this Board only can deal with the charges for the gas in the main transmission line between Turner Valley and the other Municipalities and what the Utilities Board should do in taking those lines into the rate base and fixing the charges for them, then that is a different matter altogether but so far as being of any assistance in fixing the well head price I am at a loss at the moment to see how it can and I would like some light on that.

THE CHAIRMAN: Well we will give consideration to it.

(Go to Page 3311)

THE CHAIRMAN: Mr. Chambers ?

MR. STEER: Mr. Chairman, an order was made against the Gas Company last week. I have not been able to give full consideration to the question of appeal or no appeal. Could I ask for an Order staying the execution of the Order ?

THE CHAIRMAN: As long as it is not too long a stay.

MR. STEER: I will deal with it promptly.

THE CHAIRMAN: The point is that we do desire to have this Hearing concluded some time.

MR. STEER: Quite so and may I ask if an appeal is decided upon that stay would remain continuous until the hearing of the appeal which of course will be laid down speedily if an appeal is decided upon.

THE CHAIRMAN: We can leave it over until next Tuesday.

MR. CHAMBERS: The Order that my client is interested in, I have not given consideration to the matter of that order and I take it that I can speak to it next Tuesday.

THE CHAIRMAN: A week from tomorrow. We won't be sitting next Monday.

MR. CHAMBERS: Oh yes, Tuesday.

THE CHAIRMAN: Are you ready Mr. Chambers ?

H. Le M. STEVENS-GUILLE, (having previously been sworn) Re-Examined by Mr. Chambers:

Q Mr. Stevens-Guille, you are still under oath ?

A Yes sir.

Q Following the evidence of Mr. Hill and his appraisal of the property taken over by Madison from Royalite and in particular having regard to certain statements made by Mr. Hill that he had not given particular thought or weight to the matter of obsolescence of the Seaboard part of the scrubber - as I say

following that Mr. Stevens-Guille and the accounting Department of Madison has prepared a statement following also discussions with Mr. Martin of the Gas Company and I would like through Mr. Stevens-Guille to present that statement or report which is by way of an Amendment to or Supplement to Exhibits 59 and 60 and this report deals primarily with the Seaboard and then also makes a reconciliation of the entire valuation.

THE CHAIRMAN: What is Exhibit 59 ?

MR. CHAMBERS: Exhibit 59 was Mr. Hill's main appraisal report.

MR. BLANCHARD: It starts at Page 45 of Exhibit 59.

REPORT NO. M-6-B NOW REFERRED TO MARKED EXHIBIT 120.

Q Mr. Stevens-Guille will you read the introduction and any part of the Exhibit that you see fit and explain the matter ?

THE CHAIRMAN: Have you other copies ?

MR. CHAMBERS: Yes they were handed to the Conservation Board on Friday.

MR. HARVIE: Would you describe it again Mr. Chambers so we can have the record.

A I will read the title when I start reading. Shall I start now. It is a Report No. M-6-B and entitled, "Adjusted Summary of Reproduction Valuation due to Revision in Reproduction Valuation of Gas Purifying Plant". Turning to Page 1,

This statement gives the adjusted valuation of Madison Fixed Capital Assets due to the revision of depreciated valuation of Seaboard plant to the basis of a complete Girbotol plant having the combined capacity of the present Girbotol and Seaboard plants. This adjustment is submitted in the light of Mr. Edgar G. Hill's evidence that

he had not, in his appraisal of the Seaboard equipment, taken into account obsolescence except in a very minor degree and that, in arriving at a present-day value on the basis of reproduction cost, obsolescence should be taken into account. At the same time, Mr. Hill was careful to point out that, in his opinion, obsolescence was not a factor if historical costs were being used for the purpose of arriving at a rate base. In this regard, reference is made to Volume 23 of the transcript pages 1803 - 1804.

You will remember when Mr. Hill was on the stand, Mr. Steer questioned him on that point and at that time suggested to Mr. Hill that the cost of completing the scrubbing plant on the Girbotol should be used as what he described as a yard stick for the reproduction valuation of the scrubbing plant as a whole, and that is the system that has been followed in preparing this Amendment to Mr. Hill's valuation. I would refer you now to Page 9, so that I can show how the yard stick has been applied.

On Page 9 you will see a statement headed, "Equipment required to Convert Scrubbing Plant to Single Girbotol Plant", and the equipment that in the opinion of our Engineers in consultation as Mr. Chambers mentioned with Mr. Martin who was retained for the purpose by the Canadian Western Company - equipment that would be required to convert the scrubbing plant to the Girbotol system and to do away with the Seaboard system altogether is listed. There were certain differences of opinion between our Engineers and Mr. Martin on one or two points but the total amount of those differences was not substantial in relation to the total of the scrubbing plant valuation as a whole. I do not think there

is any point in my going through by item because it has been fully discussed between the Gas Company and ourselves. But turning past to Pages 10 and 11 and then to Page 12, you will see a sub-total of $110,235.00 about a quarter of the way down the page. Now you will probably remember Mr. Hill put in an estimate of what it would cost to instal equipment for the same purpose. That is to say to replace the Seaboard equipment and convert the process purely to the Girbotol cycle and you may remember that his figure was very close to the $110,000. odd.

I would just remark there that his list of equipment and the list of equipment we have got here is not the same in some points as I think Mr. Hill himself said he had only had the opportunity to study it over night and he pointed out he was not conversant with the operation of the scrubbing plant to the extent he could make a definite recommendation. Now going on down Page 12, you will see the last list of equipment is entitled, "Portion of Existing Seaboard Plant convertible to Single Girbotol Plant, Ford, Bacon and Davis depreciated value".

Q MR. CHAMBERS: Mr. Stevens-Guille, as I understand it that last half of the page consists of the Seaboard equipment there now that would be used in the conversion ?

A That is right.

Q And these are Mr. Hill's valuations taken out of Exhibit 59 ?

A That is right. It exists there today and could be used usefully if the plant was converted to a Girbotol cycle. That totals $78,995.00 and adding to that the total above of the estimated new equipment required, we get a grand total of $189,230.00. Now that is the figure which at the suggested

method that Mr. Steer put to Mr. Hill should be used as a yard stick to value the scrubbing plant today with regard to the Seaboard portion of the equipment.

The Girbotol portion of the equipment, of course, has no obsolescence, only depreciated value as shown by Mr. Hill. So now if you will turn back to Page 2, the eighth item down the page under "Classification" in the left hand column is, Seaboard plant, and travelling across the page the first setsof figures against that item are under the column headed "Totals as per Ford, Bacon and Davis reclassification" and then column headed "New" with the figures, $428,396.00 in it, and the next column to the right "Less Depreciation", $266,277.00. That was the valuation that Mr. Hill had set on Seaboard equipment on a reproduction less depreciation basis. Now the yard stick that I have just mentioned has been applied to that total and to the columns to the right against the same item you will see $189,230.00, which was the total I referred you to at the bottom of Page 12.

(Go to Page 3316)

And, therefore, giving effect to obsolescence in the manner that has been described, 189,230 would be the adjusted valuation of the Seaboard equipment on a reproduction basis less depreciation. And now this Page 2 is a revision of the Table in Mr. Hill's report, Exhibit 59 on page 22. It is longer and with more items on it because in revising it the accountants have at the same time for general convenience, consolidated the figures from Mr. Hill's report, Exhibit 59, and his supplementary report, Exhibit 60, from page 22 of Exhibit 59 and page 1 of Exhibit 60. Then they have also brought into the consolidation certain relatively minor changes in classification, that is to say, where equipment for one reason or another had not been put in the right category, and included in the scrubbing plant equipment, they have transferred it from the miscellaneous equipment, where most of it was, or in one or two cases other places, and put it under the scrubbing plant heading. If you will turn to page 3 you will see these transfers and classifications have been given in detail so that anybody can follow them through who wishes to.

Then turning back to page 2 you will note that the same set-up has been followed as that originally used by Mr. Hill. The equipment is dealt with under those various classifications, brought to a sub-total, and then Mr. Hill's 9% overhead is added as one item on that total, together with the working capital and the going value to give a grand total showing the valuation of the plant according to the method that he described, and we have added to that two other columns showing what it would have been if the yardstick that I have outlined this morning were

to be applied to that appraisal. I think, Mr.Chambers, that covers all the explanation that would appear to be necessary on that.

MR. CHAMBERS: I think perhaps for the purpose of the record to make the position of my client definitely clear, I should say that our submission is that the Board, that one of the controlling factors at least in arriving at the rate base will be the present day reproduction cost less depreciation. And I now on behalf of the Madison Company state that so far as reproduction cost is concerned less depreciation, we submit that the previous figures should be revised by $83,981.00, and that is summarized this way, on page 2 of Exhibit 120 there is the total valuation of Mr. Hill in the third last column of $2,527,969.00, and if you take the working capital off you have left $2,337,969.00. That was Mr. Hill's previous revised valuation. And on this new basis the total figure is the very last one, $2,443,988.00, and you take the one hundred and ninety thousand dollars working capital from that, and you have $2,253,988.00, which leaves it, my client is now submitting, as the reproduction cost new less depreciation. In other words, there is a difference of $83,981.00.

Now, if the Board pleases, I would like to have Mr. Stevens-Guille deal with a matter that was brought up by my learned friend, Mr.Steer, in the cross-examination of Mr. Mercer in connection with the early history of Turner Valley. Now, while I still submit that that situation is not relevant but the evidence having been admitted, I think I have to bring out the whole picture insofar as I consider Mr. Steer has not. And I think that discussion or the examination of Mr. Mercer by Mr.Steer, is found in Volume 33

at page 2592.

Q Mr. Stevens-Guille, you have been actually in the Turner Valley field since when?

A 1928.

Q And you were originally with the Production Department of the Royalite, is that right?

A Yes.

Q And that Department also included the Company's gas business?

A At that time, yes.

Q Now will you just tell us what you know about it from your own personal knowledge since you have been there, and any circumstances that existed at the time that you went there. By the way, you have heard the evidence of Mr. Mercer?

A Yes sir, I was present.

Q And it is along that line I want you to give your testimony.

A Yes. To cover first one of the points that was made, I think we ought to have on the record the reason or my understanding of the reason, I was not here and naturally it can only be that, why wells were drilled in Turner Valley in the first instance. My knowledge of it does go back to 1920, when I heard E. F. Cunningham-Craig, who was at that time a geologist well known out here, although his office headquarters was in London, England, give a lecture in which he referred to Turner Valley and to the gas seepage that is very well known to all of us, and still exists today down in the bottom of the yards on the banks of Sheep Creek in the property now known as Madison. He also made reference to that in his book "Oil Finding". That was a text book to anybody going through a course of oil engineering and geology at that time, and also referred to in every history that I

have ever seen of the oil and gas business in Turner Valley.

I make that point because it was Mr. Steer's suggestion to Mr. Mercer that the original wells were drilled in search of oil. And while that might well be true, the remark Dr. Boomer made to Mr. Mercer the same day was also in my own mind that I cannot conceive anybody drilling for oil without the idea that he would also obtain natural gas to greater or less degree.

The Royalite Oil Company entered into the picture, as Mr. Steer brought out, in 1921 on a revision of the set-up of the Calgary Petroleum Products Company which had at that time two completed and one partially drilled wells known as Dingman No. 1 and 2, and Dingman No.3 in Section 6 in Turner Valley, which is the section which the Madison plants are located in. At the time that Royalite entered into the situation, there were these two wells producing wet gas and a small amount of crude oil. As Mr. Steer brought out, there had been a natural gas extraction plant in operation, but it had been burned down in 1920. He also brought out through Mr. Mercer that Royalite built a new gasoline plant in 1921, and his suggestion was that Royalite therefore were treating this as an oil and natural gasoline business and not a natural gas business. I am naturally not in any better position than Mr. Mercer to say what was in the minds of those directing Royalite, but I cannot conceive anybody knowing the precarious state of the gas supply to Calgary in the years 1920 and 1921, not also having in mind the possibility or the possible utilization of the natural gas as well as the natural gasoline and crude oil, and I think that is very clearly borne out by the fact

that while Royalite built a new gasoline extraction plant, it was not in fact operating flaring the residue gas except for a period of ten days for test purposes, and it was then shut down.

Now, Mr. Steer called attention to an Order of the Utility Board directing the Canadian Western to lay a gas line into Turner Valley to pick up the gas that was available in Section 6 from these wells that I have referred to, and which had been renamed Royalite Nos. 1, 2 and 3, and Royalite built for the purpose of delivering residue gas from that gasoline plant to the Canadian Western system a compressor station consisting of six 80 Horsepower gas engine driven compressors. Those compressors are still in existence today and, as I have been told before and I have refreshed my memory recently, there was great urgency in getting this compressor station operating by the end of 1921 so that the City of Calgary should have the benefit of the increase in supply that would be available which amounted to what today seems a very modest volume of 3 million cubic feet per day.

(Go to page 3321).

Error in numbering.

(Go to Page 3322).

I think that emphasizes the urgency of the situation very clearly.

Q Mr. Stevens-Guille, pardon me for just a moment, there is an item, - talking about this compressor station, can you give us any idea as to whether it is a comparatively small set-up, have you any idea how much is involved in dollars and cents, five thousand, ten thousand?

A Oh no, a much larger sum than that. It would have been, I would estimate, in the order of fifty thousand dollars or some such sum as that.

The main feature of the compressor station was not its size and volume but the fact that the gas had to be picked up at low pressure and delivered to the Gas Company at 150 pounds, in order that the line would have sufficient capacity. Well that situation changed through 1922, but again in the winter of 1922 to 1923, as many of you here know better than I, the gas situation in Calgary was a matter of great concern, and in 1923 there had become available additional volumes of gas in Turner Valley from Royalite 4 having been drilled into the upper horizon above the limestone and Royalite increased its compressor capacity from the 6 units to 12 units, having to go from a two-stage compression up to a three-stage, delivering at 300 pounds, so that the line that had been installed in 1921 by the Gas Company would have sufficient capacity to carry the extra volume and the capacity now of the compressor station was in the order of 7 million cubic feet per day.

Q Mr. Stevens-Guille, at that point as I understand it, Royalite 4 had not been drilled into the limestone?

A No sir, it was producing from the sand above the limestone.

Now an important point which I did not mention just now was this that when the gasoline plant was built in 1921 it first operated during all that test period at 50 pounds or thereabouts. Absorbers had been installed with a working pressure, a maximum working pressure of 250 pounds. Now obviously the extra cost of purchasing high compressor absorbers would have not been entered into by Royalite unless it had a purpose in mind, and I cannot conceive that there was any other purpose than it anticipated selling the residue gas and recognized it would have to build to higher operating pressures to be able to do that.

During the winter of 1923-24 Royalite 4 continued to deliver gas with Royalites 1, 2 and 3 to the Canadian Western system, and it was not until the spring of 1924 and the winter load had therefore gone from the city's , - from the Canadian Western's distribution system, - that Royalite 4 was taken out of the system and deepened to become, as is common knowledge, the discovery well of the gas cap of the Turner Valley gas and oil field. Now this gas, 20 million cubic feet, was the capacity of Royalite 4 when it came in in the limestone.....

Q Mr. Stevens-Guille, if I might interrupt again, you referred to the Royalite 4 as the discovery well of the limestone formation in the gas, is that right?

A The gas cap in the limestone, the formation from which the crude oil and natural gas from Turner Valley is today produced.

To go back to where I was, I was going to say that the limestone gas contained 640 grains of hydrogen sulphide per 100 cubic feet, and therefore was not suitable for use in the City of Calgary or for domestic consumption

generally, but the gas situation in Calgary must indeed have been in short supply because a trial was actuallymade to use that higher hydrate gas in the system in December of 1924. It was a very short duration, I understand, due to the immediate and numerous complaints of the consumers so in 1925 Royalite built the first scrubbing plant at Turner Valley, the Seaboard process, which incidentally was the best system available at that time and was one of the first applications of that system to scrubbing natural gas. That plant was completed by the end of 1925 and in December of 1925 gas from Royalite 4 was turned again into the mains of the Canadian Western and the gas from that well and other wells which by then and in subsequent years were drilled into the limestone was the source of supply and for many years the sole source of supply of the Canadian Western system, Bow Island having been largely depleted and Foremost, which, as Mr. Steer mentioned this morning, had been connected in around about the 1921 period, was held as a reserve, it being quite incapable of supplying in recent years the market demand.

Now shortly after the scrubbing plant was started up either in 1926 or 1927, I cannot say with certainty which, the gasoline extraction plant was shut down and Royalites 1, 2 and 3, which had not been used to supply the Canadian Western system but only locally for fuel in Turner Valley after the scrubbing plant had been put into operation, were also shut in except for minor uses from time to time for local fuel purposes.

Now the natural gas from Royalite 4 and from all of the other gas cap wells then producing from the limestone, which were, as years went on, connected into

the gas gathering system tributary to the scrubbing plant, did not go through that gasoline plant to which I have been referring.....

Q Mr. Stevens-Guille, am I right in this, that from that point on they used the separator equipment to take the wet content out and that no gas went direct to the scrubber?

A Yes.

Q And there was no absorption plant there at all?

A That is correct. The naphtha, as it was termed, which was a very light crude oil, even water white in many instances, was extracted by separators which consisted merely of a cylinder vessel about three feet in diameter and some twelve to sixteen feet high, and the extraction in these very simple pieces of machinery was such that the tail gas from those separators contained virtually no natural gasoline at all, and of that I can myself give direct evidence because I made a great many tests of those wells in the earlier days that I was in Turner Valley because even by 1928 and 1929 when I started to work down there, the tail gas, as it was called, from those separators, was practically free from natural gasoline. It was not, as a matter of fact, until 1933 that the gasoline content had increased to a point where it appeared necessary to instal a gasoline plant, in the first instance more for the protection of the Canadian Western Natural gas system as they were fearful lest gasoline would be condensed out in their lines during the coldest winter weather.

Royalite erected it in the early part of 1933 and it went into operation at that date, but several years before that the gas gathering system had been installed to bring the gas from several different areas on the gas cap

to the scrubbing plant to be delivered to give full supply under peak load conditions to the Canadian Western ssystem, and if my memory is correct, the peak load had already reached 60 million cubic feet before the gasoline plant went into operation; in order to be able to supply without any possible or probably interruption, it was of course necessary to tie into the scrubbing plant a much larger volume as at that time the hydrate problem was a new one. I believe it was first met to any major degree in Turner Valley and it had not then been solved to the degree that it has been today, and for many years before the absorption plant went into operation it was the practice to bring into the scrubbing plant a considerable volume of gas in excess of that currently being taken to the market and to flare it in what was popularly known, - to flare the balance above market requirements, - in what was popularly known as "Hell's Half Acre", so to my mind it is very clear that right from the start Royalite's operations in Turner Valley were those of a normal oil and gas producing company with the good fortune, it might be said, with an outlet for its residue gas.

I think, Mr. Chairman, that covers most of the points which occurred to me.

Q MR. CHAMBERS: The suggestion has been made here, and I think you have heard the evidence that this gas gathering system, the gathering system as a whole, was designed primarily in the interests of the oil industry and not so much with the gas individual in mind, what do you say as to that?
In other words the suggestion has been thrown out that this gathering system has been built up around the absorption plant and that that was the prime consideration?

A Well quite clearly, Mr. Chambers, from what I have just said, it could not have been the prime consideration because the absorption plant to which reference in that connection is made was not even in existence. The gathering system was very definitely in the first place designed to serve the scrubbing plant, but being, as I have stated, being not in fact any gasoline content to extract in the gasoline plant. Then when the gasoline plant was installed, as I covered a few minutes ago, the gas gathering system still had to be designed, not primarily for the gasoline plant operation, but to be able to take care of market requirements which fluctuated, as we have had evidence produced here before, from, in those days, ten million as a low in hot summer days to over 60 million on peak winter load days, the peak increasing progressively as additional load was added to the Canadian Western system, and just prior to the war the peak was in the nature of 70 million to 75 million, and since, of course, the load has been increased to a large extent due to war conditions, and the peak has also increased and today is estimated to be the capacity of the Canadian Western lines to take the gas away from Turner Valley, which they have put at between 80 and 85 million cubic feet, and the gas gathering system is desiged to be able to deliver that volume of gas but also there is built into it of necessity a margin in case of trouble. A line may break. A line might be partially plugged or, as even/has happened, more than one line might be partially plugged with hydrates and lose its capacity, and that eventuality is more likely to happen during severe winter weather when the need for the line is greatest than at any other time. If, - now I did not of course design the first gas gathering line but I have had a part in designing

them within the last several years, and I know that if it had been a question of designing a gas gathering system for a unit gasoline plant operation, the system would be a lot smaller than it is today. If you were to operate a unit gasoline plant extraction proposition and had to flare all your residue gas, obviously you would build both your plant and your gas gathering system to operate on an average per day per year volume and not on a volume fluctuating from a low today of 20 million to a high through the gasoline plant of around 95 million, and it would therefore follow that the investment in those lines and also in the gasoline plant would be very much smaller than the actual investment that there is in these gas gathering lines and Royalite's gasoline plant today, and furthermore, if you were running purely a unit gasoline plant operation, you would not build in a stand-by. That is not just a hypothesis, that is a fact.

Q A stand-by, what do you mean by that?

A In the way of lines, stand-by in the way of gas gathering lines in addition to what the minimum sized line required to handle the volume due to the possibility arising that I explained a few minutes ago, of a line breaking or becoming plugged or partially plugged because in designing the Royalite gasoline plant No. 2, stand-bys were not built in, it being better economics to take the loss of current revenue if the line's capacity does go down for a short time, so, - of course in the case of a gas cap well it is possible to shut the well in, if the main production of the well is wet gas, therefore very definitely, Mr. Chambers, to put in one sentence what you started by asking me, the gas gathering system, that is to say Madison's gas gathering system, was not designed

and built for the gasoline plant. The controlling factor was the large fluctuation in market demands on the one hand and the necessity of maintaining 100% continuity of service on the other hand.

Q Mr. Stevens-Guille, did I understand you correctly, that you said that the capacity and the investment in the absorption plant was larger on account of the gas business than it would have been if there had just been a straight absorption plant proposition?

A In the Royalite gasoline plant No. 1?

Q Yes?

A Yes, it connects up with an average per day per year basis, something in the order of, I think it works out at 43 million cubic feet per day, something anyway of that order, whereas it has to have a capacity to handle the peak winter load which is between and 100 million cubic feet, or could be under existing conditions.

THE CHAIRMAN: I think we will adjourn now for a short time.

(A short adjournment was here taken).

(Go to page 3330).

Q MR. CHAMBERS: Mr. Stevens-Guille, there is another point I would like to direct your attention to for the moment. You heard the examination and the evidence about the basis of the allocation of the charges to the absorption plant for the gathering and compressing of gas. Now just tell us what you know about that or your ideas.

MR. STEER: What evidence would that be? Whose evidence?

MR. CHAMBERS: Well, Mr. Kirkpatrick gave some evidence and then he was cross-examined at length and Mr. Mercer was cross-examined and I think Mr. Donellan was cross-examined.

A Yes. I did touch on it on one occasion in reply to a question from Dr. Boomer but I do not think I have ever given any direct evidence on it. My position with regard to it is this. Going back to the original Madison submissions, it will be remembered that a tentative suggestion was made, and it was very definitely made only as a tentative suggestion, and also Royalite at that time made a submission which was made by their accountant using a method, the Price Realization Method, that he had used for a certain purpose on previous occasions. But as I think everybody now appreciates, the passing of the Natural Gas Utilities Act created different circumstances and many very complicated ones and these points of course could not all be worked out before the original submissions were put in for the start of the Hearing in May, 1944. It would be something like a year, or a little less, ago that as each of these questions came up for discussion by our organization that the question of the proper apportionment of the gas gathering costs and compression costs was discussed. I had no part in the earlier discussions but I was asked whether I could suggest a way which would be based on the actual facts

of the operation and out of subsequent discussions was evolved the method that has been referred to here as the Volumetrid Method. Now the reasons, or rather the factors surrounding the operation of the gas gathering system must be considered and held clearly in mind and the first one is that the Natural Gas Utilities Act made those gas gathering lines public utilities, hence common carriers. Another important one is that to which I referred just before the recess this morning, that the gas gathering system was not built, in the case of the Madison System, to supply primarily a gasoline extraction proposition. It was very definitely built for a combined operation in recent years, but for a single operation in the first place, that of collecting gas for the scrubbing plant whose only function was to serve the market. The approach then seemed to be: What would be the proper freight rates, as you might describe them, on that common carrier system. The material being carried was essentially all of one category or classification, hydro-carbon materials and all in the gaseous phase. A certain portion of that material was consumed in the gasoline plant operation, either to reappear as the liquid product extracted by that process or in the vapours which are naturally and essentially absorbed with the operation of the wet gas that reappears as the liquid product and are rejected and burned at a flare. Another portion of the wet gas is used by the gasoline plant process for fuel purposes, therefore the gasoline plant operation consumes the sum total of all these volumes in its operation, leaving only the portion of the original total wet gas that the gas gathering system has collected as residue gas for use after purification in the market. At the present time some residue gas is returned for drilling fuel and that of course must also be taken into

account in considering the proper apportionment of the charges. Now my understanding then, and I understand that it is still correct, was that on freight rates the materials that come within the same classifications get charged at the same freight rate. On that two obvious examples can be given. One is the transportation by tank car on the railroad of gasoline from Calgary to Edmonton as against the charges for transporting fuel oil between the same two points. The rates, I am informed, for both those two materials, both hydro-carbon materials, like this wet gas, is the same, on a weight basis. The same applies to coal from Drumheller to Calgary, irrespective of its quality and irrespective also of the price it will realize in Calgary. The same with regard to the price, of course, applied to the gasoline and fuel oil transported from Calgary to Edmonton. There is no allowance made for the difference in prices that these two products will realize on sale in Edmonton.

THE CHAIRMAN: What is the position with respect to crude oil and gasoline going to Saskatchewan?

A I have not ever had occasion to check that, Sir.

Q My impression was that there was a marked difference in the freight rate.

MR. HARVIE: I think that is true with respect to crude oil rather than fuel oil.

THE CHAIRMAN: Crude oil is what I said.

MR. HARVIE: There is some difference because of an unmanufactured product.

A Is there a difference in the freight rate for crude oil according to the quality of the gasoline content or anything?

THE CHAIRMAN: I am not sure, but they are both hydro-carbons.

A That is true enough. Therefore, basing the thought on these

lines the suggestion has been submitted that the charges shall be made on the proportionate volumes used by the gasoline plant and by the scrubbing plant or the consumer of the residue gas. But Dr. Boomer called attention to the fact that the weight basis might be more correct that the volumetric and as I replied then I think he is correct and the reason why the volumetric method was suggested was simply one of simplification because volumes are measured and enter into the accounting already today and it would save just one more elaboration in what is already becoming a very elaborate system of accounting. But as far as the accuracy of it goes, I would certainly agree with Dr. Boomer that the weight basis is more correct.

Q MR. CHAMBERS: Mr. Stevens-Guille, you may not know and on the other hand you may. My recollection is that the transportation charge from the Valley Pipe Line is the same for the crude product as for the high test product that they bring in here, do you know?

A I cannot say offhand whether it is today or not.

THE CHAIRMAN: Well it happens to be, but there is a vast difference in the amount that is allowed for pipe line losses.

MR. CHAMBERS: Oh yes. There is no doubt about that.

Q Have you a copy of Exhibit 94 there, Mr. Stevens-Guille?

A No, I have not got a copy of it.

THE CHAIRMAN: Which is that?

MR. CHAMBERS: Exhibit 94, that is the B.A. Submission with respect to the Sharing of the Market.

A I have a copy now, Mr. Chambers.

Q Exhibit 94 was the submission by the British American Oil Company Limited re British American Gas Utilities Limited in respect of Sharing the Market. It is headed Volume 4 and it

is dated June 18th, 1945. I refer you to paragraph 7, Mr. Stevens-Guille.

A Is that the last but one?

Q It is on the copy that we have.

A Yes.

Q It starts off: "We would also point out that all flaring of gas could be avoided if sufficient stand-by equipment were installed." Now what observation have you got, if any, to make about that?

A Well that is true, of course, as it stands, Mr. Chambers, that if you instal sufficient equipment all flaring of gas can be avoided. But as I understood the recording of Mr. McCutchin on the stand in answer to your questions on this point, his suggestion there was that Madison had stand-by equipment installed which prevented Madison flaring gas.

Q Yes, he implies that apparently in the third sentence of that same paragraph, "it was essential and necessary that Madison instal stand-by equipment capable of meeting all reasonable variations in load." What stand-by equipment would he be referring to there?

A Was Mr. McCutchin referring to?

Q Yes.

A That is what I could not understand and still do not understand, because we have no stand-by equipment installed for repressuring gas. We have got two units which are not always, by the vary nature of the problem handled, fully loaded. But we did have occasions on which there was a greater volume of gas to be repressured than the capacity of the two units that were installed. So we certainly do not have stand-by equipment in the usual sense of the word that when operating at full capacity we have still got capacity that we are not using.

Q You would have, as I understand, stand-by equipment at times, in the summer months, would that be right?

A During the whole pumping season as you might describe it, that is the whole period during the summer when residue gas has to be repressured there are certain times, hours in a day and even whole days in which we have excess capacity to the amount to be returned.

Q At other times during that very period, as I understand it, your whole equipment is in use for the doing of the job for which it is intended.

A That is right. We have still had to flare gas when the whole of our equipment has been in operation.

Q Have you got Volume 32 of the transcript?

A No, I have not.

Q Have you brought it with you?

A No, I have not.

Q Volume 32, page 2479, and I am reading from the evidence of Mr. McCutchin in cross-examination by myself:

"Q. Now then on pages four and five of schedule A, part of Exhibit 94, and I refer particularly to clause 3-V and the clause 5 on page 5; as I understand it, the implication of those provisions is that gas stored in Bow Island is to be deducted from the total of residue gas available before arriving at Madison's marketable gas and when I talk about "Madison's marketable gas", I am talking about it as the term is defined, is that right?

A. Yes. The suggestion is that this gas stored at Bow Island is in fact a sale just the same as any other sale of gas, a separate proposition. It has been taken you will notice from the market under paragraph "W"

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"on page 3, it has been deducted from that you see. It is not a part of the general market in this submission. Now it has to go some place. If you take it out there you have to put it some place else. You cannot just leave it suspended in the set-up, so we say that that is a sale of gas. It is just the same kind of gas, it is scrubbed and it is treated the same as gas sold to the Royalite camp, the Valley Pipe Line Company, and it has been the general set-up in the understanding that everybody that sells gas in a separate market has that deducted off their gas available for market, but here is one volume of gas I find suspended out on a stick. It is taken out of one place and it is not put any place else."

What is your slant on that, Mr. Stevens-Guille?

A Well my understanding has always been that the storage of gas in Bow Island is not essentially different from the storage of gas in the Royalite gas cap in Turner Valley. The only point in storing it in Bow Island rather than in Turner Valley was that the equipment already existed installed at Bow Island for that purpose. That equipment was idle and if that equipment was not used and gas not stored in Bow Island a larger volume would have had to be stored in Turner Valley and hence more equipment would have had to be purchased for repressuring the gas in Turner Valley. Therefore the over-all effect was purely one of economy in the purchase of equipment.

Q Now, Mr. Stevens-Guille, as I understand it, the gas supplied to the Valley Gas Company and to the Valley Pipe line Company,

referred to there by Mr. McCutchin, is sold to them and used by them for immediate consumption.

A That is right.

(Go to page 3338)

MR. CHAMBERS: And that the Bow Island is turned over to somebody whether it is the Royalite or the Gas Company for repressure or storage in the formation ?

A That is correct. It is not consumed currently, it is stored.

MR. CHAMBERS: Now there is only one other thing if the Board pleases, and that is the matter of Exhibit 118. You will recall Mr. Donellan dealt with that the last day he gave evidence. It was a statement I had prepared by Madison, a comparison of those unit costs and Mr. Harvie said Mr. Donellan or his assistant would have that checked. Now I understand that a statement is being prepared by the British American and I might possibly want to discuss that with Mr. Stevens-Guille before leaving the box. Other than that I have nothing further.

CROSS-EXAMINED BY MR. FENERTY:

Q Mr. Stevens-Guille, in this absorption plant operation we heard that there is some 15% in bulk possibly of the gas passing through the lines extracted in the absorption plant operation and my understanding is that various hydro-carbons or a substantial portion of them are extracted in the absorption plant operation ?

A A portion of that 15%.

Q No, but there are certain hydro-carbons, methane and propane, and so on extracted in the absorption plant operation are they not ?

A Yes sir.

Q Could you give me what proportion of any particular hydro-carbon that is extracted in that operation ?

A It would be making guesses to do it off-hand. Royalite

extracts in the neighbourhood of 80% of iso-butane, that is the lightest constituent of the gasoline, and then decreasing percentages of the remaining lighter hydro-carbons, propane, ethane, and methane.

Q What I am getting at is, the percentage of the different hydro-carbons that are extracted varies ?

A Oh yes.

Q And are there some elements hydro-carbons or whatever they are in the residue tail gas of which none is extracted ?

A No sir.

Q There is a portion of everything ?

A Yes.

Q Varying from how low to how high, from 80% down to what ?

A I would be guessing if I gave you a figure off-hand. I have not had an occasion to look at the percentage. It might be 3 or 4% of the methane.

Q Now you have discussed here previously the method of transportation charges based on volumetric systems, bulk and so on, and if I understand your theory because of the fact that the make up of this gas, that is, that it constitutes various hydro-carbons, that this volumetric system you have is a scientific and correct one ?

A I did not use the word scientific. I suggested it was a practical one to handle the situation.

Q That was Mr. Kirkpatrick who gave us the scientific, yes. Now I want you to turn your attention for a moment, I do not want you to smile about this, I am suggesting a practical question. Diamonds and coke are both carbon. Would you use the same system for charging for transportation and if so which one would it be, volumetric or weight ?

A I could not tell you, Mr. Fenerty. I have never been faced with the situation and never gave it any consideration at all.

Q Then the answer to me is just nonsense.

A The same freight -

Q I say the answer then is nonsense.

A I would say the things are so far apart.

Q The whole thing is nonsensical ? An absurdity ?

A Which are you referring to, the volumetric system or to diamonds and coke ?

Q All right, my understanding and you will tell me this, diamonds and coke are both carbon we will say. I say would you apply the same system of determining transportation charges to both ?

A No, I would say you are taking your analogy too far and if you take your analogy too far I think it is generally known it does not apply.

Q Would you apply a volumetric system to coke ?

A To diamonds and coke ?

Q Yes.

A I really could not say.

Q Would you or would you not and we will go on to something else. Would you not ?

A No I do not know the answer.

Q Would you apply a weight system to both ?

A I do not know sir because I do not know the surrounding facts. I have never considered it.

Q Would you say it was absurd to apply the same system to both ?

A I would think it might be true. They are both carbons as you have evidently been advised, but apart from that they have nothing in common at all, either in use or anything else.

Q Now Mr. Stevens-Guille, I understood you at the commencement of your evidence, you made a general statement and I have not got the exact words but somewhat to the effect the Royalite Company was conducting an oil and gasoline operation and that it was fortunate that it had a market for its residue gas. That is about where you opened this thing ?

A I think I said and it might be considered it might be fortunate.

Q And you still consider it so ?

A It is always fortunate if you have a market for your product.

Q And I suggest to you that the difference between the Royalite Company and the independent well owners and the British American Company there is that they were conducting either oil or gasoline operations depending upon the particular company and they were not fortunate in having a market for the natural gas. Am I putting the distinction between the two of them pretty clearly ?

A Oh yes, I think there is that distinction.

Q And I want to carry that idea in reference to the absorption plant. I did not quite follow you. Perhaps I should have. I did not quite follow you about the circumstances under which you would have designed and built a smaller plant. Would you mind telling me that again ?

A Yes sir. If today I was asked to design a gas gathering system for a unit gasoline plant operation I would not operate that plant with a low in summer and a high volume in winter. I would operate that plant at a uniform volume every day in the year. Therefore my system and plant instead of having to transport high volumes that are met in the winter, such for example I mentioned over 90 millions would only have to be

charged enough to transport the average volume.

Q And do I understand that what has happened during the past is that the Royalite Gasoline Plant has been operated with a low in summer and a high in winter ?

A Oh I never said that sir, no.

Q Well what had that injection of how you would design that kind of plant to do with the system which we have here ?

A You are referring no doubt to the period in the history of the Royalite absorption plant when it did process a volume in excess of the market requirements and that situation did pertain for one, two, three or about four years, but then Mr. Fenerty, the situation from 1938 onwards was different again. The Royalite absorption plant was only processing the volume of gas required by the market and not one cubic foot more.

Q I see, from 1938 you say the Royalite plant processed only the volume required ?

A By the market. That is the market, Turner Valley and local consumption plus the -

Q That is low in summer and high in winter ?

A Yes sir.

Q That is the way the absorption plant operated ?

A Yes.

Q From 1938 ?

A Yes.

Q And what you mean is I take it if you were designing an absorption plant for the sole purpose of taking some of the gasoline content out of the gas used for domestic consumption so as to render it more suitable, you would have built a smaller plant ?

A No I do not think so. What I said was if we were designing a plant to take the gasoline out of the same total volume over a

period of a year that is now being handled by the plant.

Q Since 1938.

A Since 1938. Then you would design a smaller plant and gas gathering system.

Q But the point is that plant was designed without any reference or regard to the dry gas requirements of high in winter and low in summer ?

A I would not say that is true at all. It is quite clear that advantage was taken over a period of years as I have already stated of the excess capacity of the plant above the market requirements. But, the question of why the thing was designed in that size I do not think necessarily follows along your suggestion.

Q It is your opening remark again. You had an oil and gasoline industry with the good fortune to be able to market your dry gas, does that have any bearing on that ?

A No that is not correct. My opening remark that I think you referred to was dealing with the time that Royalite entered into the Turner Valley situation in 1921. Not dealing with the time at which the present and quite different gasoline plant was built. The Royalite had for over a period from 1925 or 1926 till 1933 no gasoline business whatsoever.

Q I see, the situation is that from 1914 on until - the situation is I think in 1914 it was the Calgary Petroleum Products ?

A Yes.

Q And from somewhere around 1920 and 1921 I suggest to you that there was no thought as far as you have been able to ascertain from any records of anyone of the gas situation in Turner Valley ?

A Well I cannot agree with that at all because there you have

the very inception of the thing, a gas seepage, and it would seem extraordinary to me when already a gas market has developed that someone would not think of the possibility of using it.

Q I think you said you could not conceive of someone not having thought of it. That is your opinion. You could not conceive of these early pioneers not thinking of it, but you have no opinion of what you would have thought of it ?

A But the early pioneers had already thought of it.

Q What is that ?

A The early pioneers had already thought of using gas.

Q From Turner Valley ?

A Not necessarily from Turner Valley, because Turner Valley had not been drilled.

Q Let us confine ourselves to Turner Valley. We do not want to have too many non sequiturs. We have too many already and I do not want to take on too many. I am talking about Turner Valley, you say you cannot conceive they did not have some thought of a dry gas situation. I say that is purely a result of your own brain work. You have no evidence or anything that happened between 1940 and 1920 have you ?

A It is not direct evidence no sir. I was not here. I said that at the start.

Q You were not around here between 1914 and 1920 ?

A No, and I pointed that out clearly on the record so there won't be no misunderstanding.

Q You remember this old compressor we are talking about ?

A Now which compression plant was it ?

Q There was a compression plant owned by the Royalite prior to the establishment of an absorption plant for processing gas

and recovering gasoline ?

A No sir, the compressor plant as I pointed out this morning was built after the absorption plant. If you are referring to the one built in 1921.

Q Was there not one before 1921 ?

A Not belonging to the Royalite. There was one of the Calgary Petroleum.

Q The old Dingman Plant ?

A Yes.

Q That was taken over by Royalite ?

A No that is the one that was burned down.

Q Royalite never operated that compressor plant ?

A No Royalite was formed in 1921. And that was in 1920.

Q That was Calgary Petroleum Products ?

A Yes.

Q That is the Dingman Company ?

A Yes.

Q I guess that is right. That is the old compressor still standing there ?

A I believe that was so. I cannot say for sure.

Q All right. Now you referred to a single operation in connection with the gathering lines as initially installed. You said they were installed for a single operation ?

A We are talking now of gathering lines I presume installed tributary to the scrubbing plant between the years 1925-1933. Is that right ?

Q Yes, now prior to 1933 what was the extent of the gathering line operation ?

A Well how do you mean the extent of it ?

Q Well what was tributary, what wells did it serve ?

A Oh Royalite #4, #14, #21, #13, #9, Dalhousie #1, #6, Royalite #7, #12, #8, #18, #11, #20 and #31. I think going south as far as Dalhousie #7, which year it went on to the Home group I cannot quote you out of my mind but that definite gathering system -

Q Let us put it this way, is it correct to say that served wells which were all opened by the Royalite Company or its associates or in which Royalite or its associates held interests?

A I think that might be true, but the point to bear in mind was that those wells at that time were producing, not wide open, but at a very high rate and the volume of gas therefore available from those wells was at all times in excess of market requirements. Therefore there would be no point in going further than to tie in the market requirements.

Q I am not trying to make any argument as to the result. I am getting the facts and around about 1933 there was a very substantial extension of those lines to wells in which the Royalite Company and its associates were not directly interested was there not ?

A Oh yes, additional wells were tied in, but from around 1931,'32, there had been a measure of voluntary conservation and volumes of gas from the other wells were therefore decreasing.

Q Let me explain something to you. You do not have to get into an argument in answering every question.

MR. CHAMBERS: I say and I submit the witness is not arguing. He is asked a question and he is entitled to answer in any way he likes.

THE CHAIRMAN: It did seem to me Mr. Stevens-Guille was giving an explanation which arose out of your question.

THE CHAIRMAN: He suggested that these companies were endeavouring to introduce a measure of conservation by which they cut down the volume of gas that was being taken from the wells which he had enumerated, and tied in with other wells to make up the volume that was shut in in the other wells. Isn't that right, Mr. Stevens-Guille?

A That is the idea. There is no one simple answer to any one of these things because there are so many factors that enter into it.

MR. FENERTY: I am trying to get the continuity with regard to that as far as I can, and if my learned friend, Mr. Chambers, wants any explanation, he can ask with regard to it, or if the Board wishes any.

MR. CHAMBERS: If he wants to explain himself he is entitled to do it, both for the purposes of the record and for the Board.

MR. FENERTY: You can bring that out, Mr.Chambers.

MR. CHAMBERS: He is entitled to do it as he goes along if he wants to do it.

MR. FENERTY: Well, if you will tell me when he is through and then I will go on with what I want. Is there something else that you want?

MR. CHAMBERS: No.

THE CHAIRMAN: I really think that there was a misunderstanding. You got the impression that Mr. Stevens-Guille was arguing with you. He did not appear to Dr. Boomer or to myself to be arguing.

MR. FENERTY: I do not say that it is not relevant. It might be something quite relevant and somebody might want it, but I want him to answer the questions that I want.

THE WITNESS: Mr.Fenerty, I may say this to the Chairman, if I did not at each stage put in the other factors, when you came to ask me for a conclusion, I would have to disagree with you because I would have to go back and explain these other points.

Q MR. FENERTY: That is your privilege, Mr.Stevens-Guille. That is your privilege. At the moment what I asked you was that if in 1933, just assume that I do not remember anything, will you please, that I do not just remember anything. Now in 1933 I say that there was, the fact is that there was an extension of the gas gathering system to wells that the Royalite Company was not interested in?

A Either in 1933 or 1934, or thereabouts, yes.

Q And did that result in quite a large extension of the system?

A Well, I have said there was an extra large extension of the system in 1933 and '34.

Q And can you give me any rough estimate of the increased volume of gas, whether it was double or how much much more, just in round figures?

A The amount processed or the amount scrubbed?

Q The amount, just a minute. These are the gathering lines. All of this gas went through the absorption plant didn't it?

A Not prior to 1933. There was not an absorption plant in existence.

Q In 1933 when you had this extension what happened to the gas gathered then?

A After the absorption plant was built in 1933, all the gas that went to the market was processed in that absorption plant.

Q Yes?

A And for a period of time there was an excess to market requirements also processed in that absorption plant.

Q Yes. So that do I understand that the extension of the gathering lines corresponded in point of time with the construction of the absorption plant?

A Oh yes. The absorption plant was installed in 1933, as I have already answered you, and in 1933, 1934 or thereabouts, there was this extension to the gas gathering lines.

Q And as a result of the installation of those gathering lines gas from wells in which the Royalite Company was not interested was processed through the absorption plant, wasn't it?

A That is correct.

Q And was all that gas from the wells that the Royalite Company was not interested in scrubbed?

A No.

Q It was flared wasn't it?

A I think with very small exceptions, with the exception of very small volume I should say, that it was flared at that period that you are referring to.

Q So that at that particular period in 1933, the gas gathered from wells that the Royalite Company was not interested in, was entirely an absorption plant operation, wasn't it?

A Yes, at that period.

Q And for how long did that continue?

A To a lesser or greater degree to 1938.

Q Until 1938?

A But I could not tell you that without going and looking at the books whether right up to 1938 there was none of that gas sent to market.

Q As a matter of fact, Mr. Stevens-Guille, was this gas that was

gathered from wells that the Royalite Company was not interested in, after passing through the absorption plant was it flared as late as 1943?

A No sir. I have already told you there was no gas flared after 1938.

Q There was none flared - pardon me, I did not get it.

A I put it on the record twice this morning definitely.

Q I am sorry, I do not hear as well as I might, and I miss a number of things, but we will get it in cross-examination. There was no gas flared down stream from the absorption plant after 1938, because you say they conducted the operations only having regard to the dry gas requirements, is that right?

A That is right.

Q Yes. I think you did tell me that. Then it is from 1933 to 1938 that the independents, I will call them, the other well owners, the gas was processed for gasoline content and flared?

A Yes.

Q Then what happened after 1938, their gas was used as the peak load required?

A They shared proportionately in the market and the volume of gas that they delivered to it.

Q And did they flare at the well?

A No, no gas cap well was allowed to flare that was tied in to the plant. Now, wait a moment. I do not think I am correct in that. I do not think the Conservation Board's ruling prevented them flaring, but naturally if they were tied in to the plant they delivered to the plant and, as I say, shared in the market at the plant.

Q Of course, those were all gas cap wells, weren't they, in 1938?

A Yes.

Q There were not any crude oil?

A No, it was in 1939, I think, that the first crude oil well was tied in to the absorption plant.

Q Then what happened, subsequently were some of those wells connected?

A Which wells do you refer to?

Q To the crude wells that came in after 1939?

A Oh, they were progressively connected.

Q And what happened,when the crude wells were connected, to the gas from the separators, the crude oil wells?

A The gas from the gas cap wells was only produced to make up the balance of requirements between the crude oil gas available and the market requirements.

Q After the crude oil wells came in, you used the gas from them and used the gas cap for the peak loads, is that right?

A That is right. Well, largely right, but actually there were very few crude oil wells tied in for a number of years, and until recently there was always some gas cap being used for the market. There is not now.

Q And did that situation apply to the crude oil wells in which the Royalite Company was not interested, were there any of them?

A Oh yes, there were some of them.

Q I mean, prior to these proceedings, the situation was that the Royalite Company was in fact marketing gas that originated with crude oil wells while those in the gas cap were closed in, is that right?

A Yes, that is correct to a minor degree.

Q Yes, I see. I would like to get a little more on that. You

said to a moderate degree, was that the word you used?

A A minor degree.

Q A minor degree?

A Yes.

Q But the general situation, speaking as a whole, was that the Company, the well owner who did not have a direct tie-in through an interest there with the Royalite Company, he was not able to participate in the residue gas with them?

A Oh there were a great number of crude oil wells that were not tied in.

Q Nearly all of them?

A Oh, I suppose the larger percentage of the crude oil wells were not tied in, yes.

Q But when you say to a minor degree, how many wells, independent wells, were getting in on the gas supply?

A Crude oil wells?

Q Yes?

A At what date?

Q Roughly, I don't care.

A What date do you want that figure for?

Q What is that?

A At what date are you referring to now?

Q Well, when did we first get crude oil in?

A '36.

Q '36?

A Yes.

Q We will say in '38 for instance?

A In the North end to Royalite Gasoline Plant No. 1 there was no crude oil well tied in in 1938. As I mentioned just now, the first one tied in to the best of my memory was 1939.

Q There were some tied in in 1939?

A Yes, but that was a Royalite crude oil well.

Q Yes, but I mean were there any tied in at all until we heard rumours of utility inquiries?

A Well I do not know when you heard the rumours. You will have to give me a specific date with regard to that.

Q Well, we have 1939. Let us go on to '40. If you want to be specific, let us be specific.

A Oh yes, between the years 1939 and 1944 there were additional crude oil wells tied in from time to time.

Q In which the Royalite Company, as far as you know, were not interested?

A Yes, there were some in which Royalite was not interested in that period. I think I am correct in saying that.

Q When you say "some" do you mean two, do you mean more than one?

A No, there were not very many. That is a close point and I would have to check with the record to be sure I am making a correct statement on that.

Q I see.

THE CHAIRMAN: I suppose that is why the Act was passed, one of the reasons why, because there were so few crude oil wells tied in.

A I understand that that was very much the general inference behind the Act.

Q MR. FENERTY: Mr. Stevens-Guille, I do not want to take very long, but I want you to go back to your evidence, the evidence you gave some time ago. In fact I think it was in April, and it is probably my fault that I am going to go back to it and talk about it because I did in some way have my mind diverted from what I was seeking there, and I

did not follow it all the way through so that if you will just bear with me and I will ask you to follow it through. Now, in Volume 25 at page 1988.

MR. HARVIE: 19..what?

MR. FENERTY: 1988.

Q At the bottom of 1988 and the top of 1989. I will just read this to you. My understanding is that we were dealing then with the Madison Company, and what parts of the entire set-up should have been incorporated in the Madison operation and what part in the Royalite.

"Q MR. FENERTY: My understanding is that the things you can go to John Smith and get you have got to have, you have got to have them transferred to you to insure continuity, the things that you can only get from the Royalite Company, the gas cap, you do not have to have to insure continuity. Now is that your position?

A Yes, for this reason - -

Q I would like you to explain it to me.

A The sources of supply of gas including the gas cap are many. The connections from those sources to the point at which the gas is required to be able to supply the market are there. There is no reasonable possibility of those sources failing to deliver it at any one and the same time. And there is ample time in the case of failure in one place to make provisions for delivery of gas from another."

Now, my understanding is that that was an explanation by you as to why it was not necessary for Madison to have control of the gas cap, and when you said, "the sources of supply of

gas including the gas cap are many," what other sources did you have in mind besides the gas cap?

A Well, I would imagine from what you have read me, I would have had in mind the crude oil wells tied in, but I have not got all the context so that I would not be sure. That is what it would sound like to me.

Q The sources of gas, I am trying to get it as much as I can.

A The sources of gas to the Madison gas gathering system are two, the crude oil wells and the gas cap wells.

Q There would be the Bow Island reserved for emergencies?

A It is not contributory to the Madison, it is contributory to the Canadian Western system.

Q So that there are only three, the gas cap and the crude oil wells, and apart from Madison's operations, there would be some reserve from Bow Island, but that is not a Madison operation?

A No.

Q Now I want to turn to page 1989, further down, and I will continue that answer. I will read it over again so that you will have the full context.

"A The sources of supply of gas including the gas cap are many. The connections from those sources to the point at which the gas is required to be able to supply the market are there. There is no reasonable possibility of those sources failing to deliver it at any one and the same time. And there is ample time in the case of failure in one place to make provisions for delivery of gas from another.

Then you go on:

" Now when you enter into the operation of the plant, the time factor is the important point. Time is exceedingly short to correct any failure in operating conditions. It is essential therefore, that the man on the spot controlling the plant has the power to direct that what he needs he receives. If he needs steam and there is an over-all shortage of steam, he has got to have the power to direct that he gets the first call on that steam right now, not five minutes or ten minutes from now, but right at this very moment, the moment that the trouble shows up. The same applies to power. There is a difference here. You do not have to have ownership of the gas cap, ownership of the crude oil wells delivering the gas, ownership of the other plants supplying crude gas, but you do have to have in our opinion as operators the ownership of those two services."

That is steam and power, isn't it?

A Yes sir.

(Go to page 3357).

Q Now just let us repeat that last, "There is a difference here. You do not have to have ownership of the gas cap, ownership of the crude oil wells delivering the gas, ownership of the other plants supplying crude gas, but you do have to have in our opinion as operators the ownership of those two services." Now I read that as a considered opinion of yours and I want you to tell me if you agree with me that at that time you were telling me you did not have to have the other things but you did have to have the steam and power.

A No, Sir, I do not think it reads that way.

Q Other plants supplying crude gas. You do not have to have them. Just read it over and see if I am reading it correctly.

A This is what it says, "You do not have to have ownership of the gas cap, ownership of the crude oil wells delivering the gas, ownership of the other plants supplying crude gas." I may have meant unscrubbed gas when I said crude gas. There are no other plants doing anything except supplying us unscrubbed gas for subsequent purification.

Q You think that is the explanation for that statement there?

A I would have to see that and go over the context which is quite long but you do have to have in our opinion - and if the recorder would have underlined the way I emphasized it, I think he would have underlined that, because I am sure I must have emphasized it - as operators you do have to have the ownership of those two services. I would only qualify it by one thing and that is you have to have them, I would say it is a better way to operate to have them. I would not say you could not operate the system the other way.

Q But on reflection, and perhaps using what you say is the more accurate term, you say you do not have to have ownership

of the gas cap or ownership of the crude oil wells delivering the gas or ownership of the other plants supplying unscrubbed gas.

A That is correct.

Q I see.

A I refer there obviously to the B.A. pumping of residue gas and the G. & O.P. whose residue gas is pumped out by Madison. If either of those services failed we are still in a position to continue to supply.

Q You do not think you are referring there to gathering lines?

A Oh very definitely, no, sir.

Q They are not part of the plant delivering the unscrubbed gas?

A No, there is a residue gas transmission line.

Q All right we will pursue this matter further. I want to get your distinction which I could not grasp in reading the evidence.

A Well I think that is undoubtedly what it was but as I say I have not read the context as you have.

Q That is all right. But you say that was not intended to refer to gathering lines?

A Oh very definitely not, sir. It would not have been in my mind.

Q Now then I want you to turn to page 1995, "Q; And you suggest the proper system there is the Madison Company having control of that operation? A. Certainly, for the same reason. If the gasoline plant loses the use of a line it accordingly loses revenue. It is just up to it whether it feels it is sounder to lose revenue for the night or get a crew out. The Madison operation requires continuity of service. It has to ensure it gets that service. Q. And could that be provided in the case of the gathering lines by the Royalite Company

"by contract? A. Well, again the same things apply. It is a question of whether the person who is dependent upon the service having the control so that it is positive it gets the service it requires and not the service that somebody else thinks it requires. Q. But those reasons have nothing to do with the control of the gas cap? A. Well I have already answered that question once by saying that in my view I do not think so."

At the risk of laboring this, I want to go back again to page 1998 where you explained the sources of supply.

MR. CHAMBERS: 1998?

MR. FENERTY: Pages 1988 and 1989. "The sources of supply of gas including the gas cap are many. The connections from those sources to the point at which the gas is required to be able to supply the market are there. There is no reasonable possibility of those sources failing to deliver it at any one and the same time." Now you say there is no possibility of those sources - and you are speaking of various wells, are you?

A I would assume so from what you have read.

Q And different wells are connected to different gas gathering lines are they not?

A Oh yes.

Q Is there any possibility of these different gas gathering lines all going out at the same time?

A There is no reasonable probability in our opinion.

Q There is no reasonable probability?

A Not of all of them at one time. We have had two of them go out at one time.

Q That is what I am trying to see how you differentiate between

the gathering lines and the wells they serve.

A I think it is clear, the number of gathering lines are relatively few compared to the number of wells.

Q Yes.

A Therefore in all mathematical probability the chances of trouble occurring to all wells at one time are far lower than the chances of trouble occurring to gas gathering lines. We have in point of fact had two gas gathering lines out of go out at one time.

Q It has happened?

A It has happened.

Q And what happened then? Were you able to supply?

A Certainly, because as I explained earlier today, one of the things you have got to do in building a gas gathering system for 100 per cent continuity of service, such for example as being the sole supply in large volume, not forgetting Bow Island that has got a small reserve, is to build into it a sufficient stand-by to handle such an eventuality.

Q Let us get this. In the course of some years' operations you have had two lines go out at once.

A That is correct.

Q Once or more than once?

A Oh we have had more than one line with partial plugging trouble on it at the same time. We have never had two lines completely shut off at the same time.

Q You are seriously considering the possibility of 3 or 4 lines going out at the same time are you?

A No I am not. I am telling you we do not consider that 3 or 4 will go out at the same time or I would not be able to supply the gas and I would need more stand-by equipment in order to do it.

Q The fact is you have not considered the possibility of sufficient gathering lines going out at the same time so you could not serve the market requirements.

A In our opinion, as I have said, we have built into that system sufficient stand-by to discharge the duty of the system which is to give 100 per cent service.

Q And that is the reason you have done that. You have to have control of the gas gathering lines but you do not have to have control of the gas cap or the wells, because there was no possibility of them all cutting off at the same time.

A Well, Mr. Fenerty, two minutes ago I answered that question by saying that the number of wells compared with the number of gas gathering lines are very large.

Q Yes, exactly, but you have told me have you not just now that you have sufficient stand-by so that you figured that there was no possibility of your gathering lines failing, enough failing at the same time so you would not have your gas supply. That is right?

A That is true.

Q In April, was not that the only excuse you gave for the gathering lines being put into Madison?

A I do not like the use of the word excuse.

Q Well, reason is the better word.

A The very first reason is they are in there because it is in the Act.

Q Is not that your reason, your sole reason for putting the gathering lines into Madison was you have to have your 100 per cent continuity of service and you have to have control for that purpose. Is that right?

A The reason for putting them in Madison in the first place

is obviously because the Act says so but if I was asked my judgment as to where they should be my judgment is exactly what I have stated to you there, that the man who needs to operate them is the man who should look after them.

Q Then just listen to this on page 1945 and the answer says this. It is a very long one and I do not think I need to read the two pages. This is more or less by itself. If you need to read it you can do so. Just at the top. "At Compressor Station No. 3 it is not necessary to add such additional units because the volume handled by that station is small compared with the total volume, and should a machine stop or have to be shut down for normal repair and overhauls, the quantity of gas so lost to the market can be supplied from other sources. That, of course, is one occasion when the ability of the gas gathering system to supply gas comes into effect." Your evidence is that so far as gas gathering is concerned, you have sufficient stand-by accommodation and a sufficient number of gathering lines and all the equipment necessary and your experience has been such that you have no reason to anticipate and did not anticipate any failure of gas supply as a result of the Royalite Company having control of the gas gathering lines. Is that a fair statement?

A No, I do not think that is my statement at all.

Q We are going to keep on going in circles and perhaps as I say it is my fault. You remember you told me there was no reason why you should have the gas cap or the crude wells because the sources of supply were many and there was no possibility of them all failing at the same time. You have now told me, have you not, that so far as the gathering lines are concerned and your source of supply, coupled with your stand-by facilities, there is no possibility of the supply failing through the

gathering lines going out all at one time. Have you not just told me that?

A In our opinion, yes.

Q Then where is the difference. Can you give me the difference in these things, why you have to have the gathering lines but not the gas wells.

A I think that is included in one of my earlier answers that I have already given you, that the man who is operating the line is dependent on it and he is going to make certain he has the use of that line and if anything should go wrong he is going to see that he gets it back into operation. I am not saying that it could not be operated the other way. I have never said it could not be operated the other way. I have said in my opinion this is the better way to operate it.

Q But your reason for saying you exclude the wells is that the sources of supply are many and there is no possibility of failure, that was your reason.

A I have said there being so many more of them the chances of failure are few. I never said no possibility.

Q Well the chances of failure.

A Well the chances of failure are very much less and I still think that is correct.

Q Now I suggest to you that that reasoning applies to the gathering lines on your own evidence.

A I do not think so. The chances are much higher. It is a matter of assessing chances. I do not say it could not be operated the other way, but I am saying in my opinion this is the best way. I have also said, Mr. Fenerty, it is not the only reason why the lines are in Madison. As I have pointed out, the Act says they should be there.

DR. BOOMER: Is that right, Mr. Stevens-Guille?

THE CHAIRMAN: The Act simply says they are to be public utilities.

A Well they are public utilities and are to be operated as such.

Q MR. FENERTY: Do I gather now that was the sole reason you were able to give us for taking over the gathering lines was that an employee of Madison would be handling the valves?

A I do not think that is a fair way to put it, Mr. Fenerty, no. I am putting it, and we know that practically every operator would agree with me immediately that if there is one organization in control of things like that that it is a much easier system to operate. I am not saying it could not be operated the other way.

Q Would you agree with me then they never should have been separated?

A Which separation do you mean?

Q You say one organization in control. Would you agree they should have been continued as an integrated operation to give proper efficiency?

A No, because it does not matter if the gasoline plant goes out for a short length of time. We have actually delivered gas into Calgary without the whole cycle of the gasoline plant being in operation and not a single consumer has known it.

Q For instance how does Royalite get protection for its steam power requirements under this arrangement with you?

A Well that is just a matter of their confidence presumably that we are going to give service, as we need it ourselves.

Q You give them the service they need?

A No, I think I explained this at great length somewhere in the record, that you have quoted from today. Supposing that there is for some reason a shortage of steam, then the non-

essential services will be the ones that will have to be held or stopped until the full supply is restored.

(Go to page 3366)

Q That is a matter of contract, is it ?

A There is no contract, no.

Q You can do that, you have no difficulty doing that ?

A It has been done and it therefore can be done again.

Q And what would be the difficulty, what would the difficulty be in doing that if Royalite retained the control of the power and steam ?

A Well I say the same thing as I said just now, I am not saying it cannot operate the other way of course, but I am saying in my opinion, which is what you asked me originally, in my opinion it is the proper way to operate this way.

Q Is this what you are telling me, that the Madison should have control of certain of these services rather than be dependent on Royalite but that it is quite all right for Royalite to be dependent on Madison carrying out any arrangement it makes ?

A Well there is a point there which has a lot of bearing, Royalite operations do not affect anybody outside of Royalite if they do not have 100% continuity of service.

Q Now Mr. Stevens-Guille, just let us be practical for a moment; I am trying to be practical and I know you are at all times; I am suggesting to you in the operations between Madison and Royalite, you have some individual employee of one Company who is going to do certain things in accordance with the arrangement between the two Companies, - I am going to suggest to you it is arrogant nonsense to suggest that those things will be carried out if he is paid by Madison and not if he is paid by Royalite, what are you going to say to that ?

A I thought you said you were going to be practical but you are not, no practical person who operates things - -

Q You just say that is not nonsense ?

A Certainly, I say you are not being practical, that it is a much better scheme to have co-ordination in the way I have suggested, but I have also said to you that I am not arguing that it cannot be operated any other way so if you think in your opinion it should be operated the other way, why that is all right.

Q I want you to give me a reason, give me just one single reason, why it is better if it can be done both ways, why it should be done your way, now give me that ?

A I think the answer to that is the usual advantages of integrated operations.

Q Look, Mr. Stevens-Guille, in the case of steam, Royalite is going to use 75% of it, is it not ?

A That is correct.

Q And Royalite can give you priority for the use of steam, could it not ?

A I have said it could.

Q All right. Now why do you say it is better, disregarding the fact that one is a Public Utility and the other may not be, - apart from that, why is it better to have the gathering lines in the Madison Company ?

A Well, Mr. Fenerty - -

Q Just tell me that once more.

A I cannot explain it any clearer than I have done already. If you have the practical handling, or have had, of men, you would know the answer to that, that the man who has got a direct control of things like that can co-ordinate the service much better than if he has to go through other people.

Q Has not somebody got to have the practical control of the absorption plant ?

A Oh, I have already pointed out - -

Q First, has not somebody got to have control of the absorption plant ?

A They have, yes.

Q And is it not better for that man whoever he is, then to have control of the steam ?

A No, because as I have already pointed out to you, if he loses the operation of his steam for a certain length of time it does not have any disasterous effect on the operation of his plant.

Q Have you any arrangement with the Royalite whereby it can get gas for its absorption plant through the gathering lines?

A Well that is already I think in our submission, a proposed contract.

Q You do it by contract ?

A Proposed contracts have already been submitted.

Q And you think that it is all right for Royalite to do it by contract but it is quite all wrong for you to do it by contract ?

A No sir, you are mis-quoting me. I have said it could be done the other way and you keep telling me I did not say that and that is not correct.

Q Mr. Stevens-Guille, in recommending the gathering linesto be included in the assets turned over to the Royalite Company, I understand you did recommend that ?

A I don't think I ever put that recommendation in anywhere, no.

Q I thought you told me you left, you suggested what should go in to make up the property ?

A I don't think I ever made such a statement.

Q I am sorry then if I misunderstood you.

A Today ?

Q No, no, away back in April ?

A No, I do not think I ever made such a statement.

Q Let us say you approved of it. Were you consulted about what went in ?

A No, I was not consulted whether the gas gathering lines went in.

Q You had nothing to do with those going in ?

A No.

Q Oh well I misunderstood you then, I thought you had suggested as an engineering matter that it should go in; I see; now Mr. Stevens-Guille, my understanding is that for some years and possibly up until around 1938 gas, dry gas, was supplied to the Royalite without the aid of compressors, is that right ?

A Yes, the first compressors were installed in 1938.

Q And I believe that when you installed those compressors, when the Royalite installed those compressors, they also had a long range plan of increasing the compressor batteries, they had one worked out at that time, had they not ?

A Oh it was recognized we would have to continue to add compressors as the pressure of the field declined naturally, and they therefore took that into consideration at the time they started out.

Q And as a result of the present repressuring program and so on that long range plan was accelerated, was it not ?

A I do not see in any way, any way in which it was accelerated.

Q I had the idea, as compared to your long range plan in 1938, that the amount of compression available, the amount of compressors available, have been substantially increased ?

A Oh it has been increased but I cannot say that the original plan

has been accelerated.

Q That is what I mean, it had been accelerated as well as increased ?

A No, I do not think so.

Q You are using now the same amount of power so far as compression is concerned as if there had been no repressuring ?

A Wait a moment, Mr. Fenerty, it is a misunderstanding probably, the gas gathering system has been increased to the north end and compressors were installed at that time but I do not say that the original plan was accelerated because I have never seen a plan worked out in detail handling all these sort of possibilities.

Q I see. It may have to do with the installation of the gathering system ?

A The only plan that I know of is the general plan that as the field pressure declined you would have to add compressors. There was no plan worked out which provided for all those possibilities that might have come up.

Q Now to what do you attribute the necessity for the installation of compressors in 1938 ?

A The same point that I have already given, the declining field pressure.

Q Yes, and caused by what ?

A The extraction of gas, naphtha, oil, out of the reservoir, the production of it.

Q Yes. If that had been strictly a gas field, without this oil production, might the pressure have remained sufficiently high over the period of many years beyond 1938 to provide a supply in the pipe line of the Canadian Western Company ?

A Well that is rather a hypothetical question.

Q Yes I know it is.

A Because you would have to give me information on the container size and things like that. It is a natural process. It happens to gas fields as well as oil and gas fields. Naturally if the size of the container is fixed and you take oil out of it as well as gas it might decline it.

Q Is it fair to put it this way, that the very great decline is largely due to the tremendous amount of gas blown off into the air as a result of the oil operation, where there was no market for it ?

A Oh yes, that would have an effect and also the gas blown out of the gas cap and not delivered to the market at the first.

Q The proportion blown off into the air was so many times greater than that which found its way to the market ?

A What period are you now dealing with ?

Q Beg pardon ?

A What period are you now dealing with ?

Q I suppose it would vary but going along from, well let us say, what period will we say, let us take prior to the discovery of crude oil, say in 1930 to 1935 ?

A Oh yes there was loss of pressure due to the gas flared at that time undoubtedly.

Q Yes, and would it be many times the amount used for the market ?

A Oh yes, at that period.

Q Some years prior to that and some years subsequent to that ?

A From about 1929 or probably 1930 would be a fairer date, up until the conservation in 1938.

MR. FENERTY: Yes, I see. Well now Mr. Chairman, I have a number of other questions but I think as a result of the direct evidence given before, I could save more than the two

minutes which are left, by stopping now and revising my questions over night, I think I could save a good deal more than the two minutes.

THE CHAIRMAN: All right, Mr. Fenerty. We will adjourn until 9.30.

(The Enquiry was here adjourned to be resumed at 9.30 A.M. October 2nd, 1945)